



Paper 6 – Rules of Origin

Background

Rules of Origin are the basis for making determination as to how a manufactured good is treated under the WTO regime in respect of where it is said to have originated from. The key criterion is that of 'substantial transformation' but this is applied differently by different WTO members although the WTO is working towards harmonised application. EU countries use EU-wide criteria. Rules of Origin are necessary for implementing trade policy measures, including trade preferences, quotas, anti-dumping measures and countervailing duties.

Presently trade within the Single Market does not require any Rules of Origin declaration and trade with third countries is carried out on the basis of products being of EU Origin, even if they are marketed (quite legally) as UK manufactured.

EURIS position

The EURIS position is that the UK should continue to use the EU's Rules of Origin procedures. This would avoid unnecessary and costly duplication. It will also avoid exporters who only sell into the EU from having to put new processes in place to identify the Origin of their goods.

In the case of advanced engineering the issue is particularly acute. As supply chains have become ever more internationalised, the proportion of the content of many goods manufactured in a single country has declined to a point where it has fallen beneath the threshold required for their classification as such on a strict single-country only basis. This is certainly the case in respect of much of the UK's machinery industry. Effectively many of the goods we manufacture would not be considered of UK origin.

That manufacturers include EU components in their definition of indigenous manufacture reflects the profoundly international basis on which most modern advanced engineering supply chains operate. In reality, the manufacturing supply chains are not national and, notwithstanding the welcome 'reshoring' trend, to treat them as such will introduce inefficiencies and distort the market, making our manufacturers less competitive in the long run.

The immediate issue: UK Global Trade

The immediate issue is that once the UK becomes a "third country", either after the exit date (30 March 2019) or at the end of any transition or implementation period (terms and duration tba), UK content in products will cease to be classed as EU content and vice versa. Therefore, apart from the potential for tariffs, customs delays and non-tariff barriers between the UK and EU27, UK components and other content will cease to count as EU for the purposes of EU preferential free trade agreements with multiple countries around the world. The pressure is already there for EU companies to remove the UK element from their supply or value chains to eliminate the risk of losing preferential trade terms by falling under the (typically) 40% EU content requirement. That pressure may become reciprocal as UK companies review their suppliers and sourcing towards a much more UK-only focus but clearly this would mean sourcing from within a single nation rather than from 27.

This pressure may be alleviated in the short term by a transition agreement which postpones the UK having third country status until the end of transition/implementation; in the medium terms by a free trade agreement between the UK and EU which includes cumulation, i.e. treating UK content as EU for Origin purposes and vice versa; and in the long term by forming free trade agreements with the 60+ countries with which the EU has agreements wholly or partially in place.

Although the principles involved may be fairly simple, the detail of calculation of origin in a complex product or system is however extremely complicated, multiple options can apply as to methodology, and there is great scope for genuine error, misapplication and complex disputes.

Regardless of what is agreed, UK businesses seeking to export will be involved in a much more complex system than has ever applied previously. In addition, the history of negotiation of free trade agreements in general and Rules of Origin in particular suggests that this will be an extremely lengthy process and unless it is addressed without delay there will be a prolonged period during which UK manufacturers will be at risk of being cut out of large areas of international trade.

Next Steps

Rules of Origin are an area where UK trade bodies, notably the product manufacturers within EURIS, can provide a vital bridge for the UK to establish the areas of common ground that UK and EU27 businesses can agree will be mutually beneficial and find ways forward on those that prove more contentious. This requires the Department for Business, Energy and Industrial Strategy and the Department for Exiting the European Union to establish their position and initial proposals, in conjunction with manufacturer trade associations, to enable industry dialogue to move forward on a substantial basis. EURIS looks forward to working with the Government to achieve this.

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